

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | | | |
|--|--|-------------------------------|--|--|--|-------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | | | Local Unit Name: Genesee County Drain Commissioner Division of Water and Waste Services | | County Genesee |
| Fiscal Year End December 31, 2006 | | Opinion Date June 27, 2006 | | Date Audit Report Submitted to State June 29, 2007 | | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

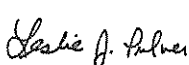
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|--|-------------------------------------|--|--------------------------------|
| We have enclosed the following: | | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | | <input type="checkbox"/> | | |
| Other (Describe) | | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Plante & Moran PLLC | | Telephone Number 248-352-2500 | | |
| Street Address P. O. Box 307 | | City Southfield | State MI | Zip 48037 |
| Authorizing CPA Signature  | | Printed Name Leslie J. Pulver | | License Number 1 10100 9300 |

Genesee County Drain Commissioner Division of Water and Waste Services

**Financial Report
with Supplemental Information
December 31, 2006**

Genesee County Drain Commissioner

Division of Water and Waste Services

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Independent Auditor's Report

To Mr. Jeff Wright
Genesee County Drain Commissioner
Division of Water and Waste Services
Flint, Michigan

We have audited the accompanying financial statements of the Enterprise Fund and Internal Service Fund of the Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") as of December 31, 2006, which collectively comprise the Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Division's management. The prior year summarized comparative information has been derived from the Division's 2005 financial statements and, in our report dated April 21, 2006, we expressed unqualified opinions on the respective financial statements of the Enterprise Fund and Internal Service Fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and Internal Service Fund of the Genesee County Drain Commissioner Division of Water and Waste Services as of December 31, 2006 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Genesee County Drain Commissioner Division of Water and Waste Services. We did not examine this data and, accordingly, do not express an opinion thereon.

To Mr. Jeff Wright
Genesee County Drain Commissioner
Division of Water and Waste Services

The accompanying supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genesee County Drain Commissioner's basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Division's financial statements for the year ended December 31, 2005, from which such summarized information was derived.

Plante & Moreau, PLLC

June 27, 2007

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis

The County Improvement Act established the Genesee County Drain Commissioner as a Public Act 342 Agency. That agency created the Division of Water and Waste Services (the "Division"). The Division provides public utility services of water and wastewater treatment in parts of Genesee, Saginaw, Shiawassee, and Livingston Counties. The Division's mission is to distribute water and collect and treat wastewater in such a manner that is in compliance with all state and federal regulations and to maintain the lowest cost to customers. Additionally, the Genesee County board of commissioners elected to have the Division act as County Enforcing Agency for Soil Erosion.

The Division of Water and Waste Services is responsible for the administration, operation, maintenance, and construction of infrastructure and treatment facilities for the communities located in Genesee County (the "County"), excluding the City of Flint, for the sanitary system and water supply. The Division is divided into six distinct cost centers (departments). These departments have been developed based upon revenue, responsibility, and definable core functions. The administration, support services, operation and maintenance, ARTP sewage treatment, Districts 3 and 7 sewage collection and treatment, and water supply operate autonomously, while sharing information with each of the other cost centers. In addition, the Division offers construction management and system operation services to local communities.

Some of the key administrative and engineering duties of both the sanitary sewer operation and the water department operation include comprehensive system planning, interaction and regulation of development, implementing capital improvement projects, and system budget management. The administration is responsible for the overall operation of the utilities services, engineering, and soil erosion in Genesee County. It is this department's responsibility to secure, allocate, and monitor funding, personnel, and equipment resources for the Division to insure safe, reliable, and efficient operation of the utility.

The primary functions of the support services area are to efficiently and uniformly provide support to the six cost centers. These services can be grouped into these categories, whose core functions are as follows:

Safety - In support of the department heads, coordinates occupational safety, develops and coordinates safety training for new hires, and assures compliance with federal, state, and local safety regulations

Human Resources - In support of the department heads, prepares and updates job descriptions, compensation schedules, personnel policies, conducts recruitment for all personnel, develops training programs for supervisors and managers, and maintains Division records related to personnel

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Finance - Assists department heads to develop and administer annual budgets, maintains all financial records of the Division within generally accepted accounting principles, and presents these records for annual audit, bond issues, and required reports, prepares and issues water and sewer bills, payroll, accounts receivable, accounts payable, and assists departments in making purchases and maintaining inventory. It is responsible for ensuring that accurate, timely bills are issued and is instrumental in answering customer questions about water and sewer bills, processing service requests and requests for transfer of service, and works with various municipalities in the processing of questions concerning the users of the system.

Permits, Soil Erosion, and Construction Inspection - Manages all permitting, serves as contact coordinator between developers, contractors, municipalities, and the Division as related to development and connection to utilities, and inspects construction of water and sewer system extensions to assure compliance with Division standards

Information Technology - Installs and maintains Division computers, software systems, develops technical specifications, and provides training and technical support for all users of the Division's ITT system

The Operation and Maintenance Department has two primary functions: water distribution/delivery and sanitary sewer collection/transportation. To ensure these primary functions are met, the operation and maintenance department performs the following tasks on a daily basis:

- Preventive maintenance of the water and sewer infrastructure and appurtenances
- Staking (Miss Dig) of water and sewer infrastructure
- Jetting/Televising of sanitary sewers
- Inspection of water and sewer infrastructure
- Responds to customer complaints (i.e., plugged sewers, high bills, etc.)
- Installs and repairs water meters, repairs broken watermains, repairs and/or coordinates the repair of sanitary sewers, sewer main taps, and cut and cap services
- Provides after-hours emergency response

The Sanitary Sewer Treatment Sections are responsible for the collection and transmission of effluent through the sewer interceptor lines to the three disposal plants under the Division's jurisdiction. These plants are the Linden Facility, the Argentine/Deerfield Lagoons, and the Anthony Ragnone Treatment Plant (ARTP). The ARTP provides sewage treatment for all of the Division's service area with the exception of Districts 3 and 7. The District 3 and 7 facilities are two distinctly separate operations but are combined administratively due to topography and geography. The Division also manages two programs that impact its treatment facilities:

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Biosolids Disposal - The Division is responsible for disposing wastewater treatment plant biosolids in a manner that is considered beneficial reuse, in particular sludge application on farmland. In 2005, ARTP applied 37.7 MG of stabilized biosolids (9554 DT) on approximately 3,400 acres of approved fields. District 3 applied 4.95 MG of stabilized biosolids (664 DT) on approximately 250 acres of approved fields. Three biosolids storage tanks were cleaned at ARTP by the end of the year, all were emptied, and all tanks were inspected. Tank atmospheric monitoring and ventilation has been increased to further assure safe conditions. The Division is studying dewatering and other options for proper, cost-effective disposal.

Industrial Pretreatment Program - Under this program, the Division regulates and monitors industrial dischargers and nondomestic dischargers to the wastewater system. The Division is responsible for reviewing applications, issuing discharge permits, verifying compliance, and calculating fees and surcharge bills for the customers, as well as enforcing regulations through discharge permits, which protect the wastewater treatment facilities and the environment. Presently, there are 21 significant permits being monitored. An arsenic pilot program for drinking water systems was implemented to ensure compliancy with MDEQ regulations. There are approximately 23 significant industrial facilities discharging to GCDC-WWS sewer systems. The Sewer Use Ordinance was approved by the MDEQ in early 2006 and the Board of Commissioners approved the Ordinance in November 2006. The new ordinance will allow for best management practices in regulating silver and mercury from over 500 physician and dental offices and grease and oil from approximately 1500 restaurants. A mercury minimization program and fats, oil, and grease (FOG) programs have been implemented through the Best Management Practices (BMP). The new position of IPP supervisor was created and filled in 2006.

The core function of all treatment facilities is to effectively and efficiently treat sewage in compliance with regulations established by its NPDES permit and maintain good working relationships with customers and elected officials of the districts to achieve the goals of accountability and credibility. These activities include:

- Facility operation and maintenance
- Analytical support to assure compliance with discharge limits and industrial pre-treatment
- Providing training in plant operation, maintenance, safety, and regulatory compliance
- Residuals management
- Addition of various treatment chemicals/other alternatives
- Planning for plant improvements, equipment replacement, and upgrades
- Emergency response plan
- Storage lagoon operation and maintenance
- Discharge limitations and monitoring
- Pollutant minimization

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The Water Supply Department is responsible for water supply acquisition from the City of Detroit through the City of Flint. The Division provides potable water to residential, commercial, and industrial customers with distribution of water to the outlying communities of Genesee County. It maintains a distribution system consisting of approximately 440 miles of water mains. The Division installs water connections at the request of customers, services and changes water meters, performs turn-ons and turn-offs at the request of customers, and oversees the backflow prevention program. In order to provide an uninterrupted supply of safe drinking water, this department also must look to the future to:

- Identify and evaluate water supply alternatives to meet normal and emergency needs
- Prepare cost estimates to construct, operate, and maintain selected alternative(s)
- Determine water treatment and pumping requirements
- Prepare cost estimates to construct, operate, and maintain selected alternatives

Through Genesee County, land was purchased along Lake Huron for the possible construction of a water plant and distribution system for Genesee County. The Division has first right of refusal on the property for development. The Division has been actively pursuing the information needed to make decisions regarding a long-term water supply solution, anticipating resolution through a joint study with other regional water supply partner(s) during 2007.

Objectives and Achievements

The main objectives of the Drain Commissioner are to maintain residential water and sewer rates that are fair and cost effective to all concerned. Although not required by law, the Division maintains a yearly budget of income and expenses. This helps with planning for new and improved systems. The rising cost of water from the City of Detroit to the City of Flint and then to the County has been and is of great concern. With continued efforts and negotiations with the City of Flint, the Drain Commissioner and the Division of Water and Waste Services were able to amend the 1973 City/County Water Supply Agreement in 2003. The cost from the City of Detroit is passed through with no markup and a flat rate is paid to the City of Flint.

Beginning in January 1, 2005 and each calendar year thereafter through August 2008, the flat rate shall be adjusted for inflation in the amount of any annual average percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the preceding calendar year. The rate per month for 2006 has been established at \$109,289. A water rate study was completed in 2004, which establishes the rates to be charged by the Division with the concept of a flat rate structure to replace the original declining block rate structure. The study updates the rates from the Division for the period of 2004 through 2007. Under the 2004 agreement, Flint is to conduct and complete a study revision justifying its charges to the County based upon "true cost of service." This study is expected to modify the flat rate charged by the City of Flint in 2007. A sewer rate study has been completed and a rate adjustment will be implemented in October 2007.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

ARTP (Anthony Ragnone Treatment Plant)

Accomplishments for 2006:

- a. Completed Phase I of railing replacement.
- b. Successfully completed six month stress test of East Aeration System.
- c. Successfully treated over eleven 11 billion gallons of sewage.
- d. No violations of NPDES permit.
- e. Completed arc flash, infrared, and short circuit evaluation.
- f. Completed preventative maintenance on 4,160 volt switchgear and transformers.
- g. Moved wet weather chlorination feed point to optimize treatment.
- h. Reduced work lost time accidents by 45 percent.
- i. Reduced equipment down time through CMMS.

Goals for 2007:

- a. Upgrade medium voltage switchgear circuit breakers at substation.
- b. Complete EMS program for biosolids.
- c. Continue evaluation of biosolids disposal options.
- d. Add backup gas chemical feed systems to facilitate performing annual maintenance on liquid chemical feed systems.
- e. Rebuild 30 year old final tank drive units.
- f. Successfully treat all sewage received.
- g. 100 percent compliance with all regulations.
- h. Improve WWS supervision "grow from within" training.
- i. Continue with blower revamp plan.
- j. Complete study for plant clarifier project.
- k. Begin design of clarifier improvements project.
- l. Continue handrail replacement project.
- m. Improve plant security cameras and keyless improvements.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Linden Wastewater Plant (District #3)

Accomplishments for 2006:

- a. Completed in-house training for DEQ exams.
- b. New gas monitors installed DAF and Pt. building.
- c. Replacement of handheld gas monitors.
- d. Cleaned all four storage tanks.
- e. Cleaned final tanks and primary tanks when taken off-line.
- f. Met permit values for entire year for facility during construction.
- g. Replaced grit pump with new unit.
- h. Improved housekeeping.
- i. Livingston flow coming into facility.
- j. Start-up and trained employees on new equipment.
- k. Operating new equipment as it has come on-line.
- l. Improved SCADA system with addition of new UPS.
- m. Improved safety and fewer personal injuries.
- n. Reduced overtime for 2006.
- o. Improved wetwell alarms and floats in old wetwell.
- p. Improved scheduling for operators and assistants in daily job assignment.
- q. Improved mowing at Ralston Road.
- r. Cleaned EQ tank.
- s. Operated plant with shut downs and startups without incident or accidents for construction.
- t. Installation of 14" valve on split wetwell discharge line.

Goals for 2007:

- a. Install level sensor on digesters.
- b. Scum removal disposal. Scum removed from plant.
- c. Recondition six filters to improve performance.
- d. Install mechanical improvements to grit system.
- e. Improve plant security with lockable storage and more cameras to monitor plant security.
- f. Choose a computerized maintenance program for maintenance and begin data entry. Will assist in PM and work order system.
- g. Rebuild drives on Primary 1, 2, and 3.
- h. Improve SCADA system and upgrade plant dialer into SCADA system.
- i. Improve the ability to return water back from Ralston Road. New line, valve and magmeter to record volume brought back.
- j. Install bubbler system air compressor similar to new wet well.
- k. Increase employee training especially on new plant operations.
- l. Improve plant sensors for best treatment on problem alerts.
- m. Improve service building HVAC.
- n. Barscreen at new wet well.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

District #7

Accomplishments for 2006:

- a. Facilitated cleaning and reconditioned lagoon Cell 1.
- b. Improved overall site appearance at WWTL.
- c. Discharges to surface water 87 MGY.
- d. Improved security of valves on discharge structure.
- e. Reduced number of service calls due to maintenance.
- f. Installation of over 10 percent of pumps and panels at District 7.
- g. Increased cell capacity.
- h. Improved procedural operation of lagoons and chemical addition.
- i. Met all permit values for all discharges.
- j. Odor and hunting complaints have decreased.
- k. Planted wheat crops and regarded all fields to eliminate mowing of fields and aid in nutrient uptake.

Goals for 2007:

- a. Clean Cell 2 of lagoon.
- b. Purchase sickle bar or mower that can reach down side of embankments to cut to water's edge.
- c. Install new sump pump line into Cell 1 or 2.
- d. Fix/Replace garage doors on pole barn for increased security.
- e. Install camera at Bird Road for security.
- f. Seal floor to reduce groundwater pumping.
- g. Replace second heater in pump house and purchase new dehumidifier.
- h. Continue District 7 pumps and panels replacement (25 percent remaining).
- i. Insulate pump house ceiling to keep heat in during winter.
- j. Add valves to discharge structure to more effectively discharge water.
- k. Solar floating mixers to Cell 3 to help control algae and mix Cell 3.
- l. Work order system - CMMS implementation (CityWorks).
- m. PM Program District 7 on all pump stations and equipment.
- n. Re-evaluate all pump stations to gauge status of present system improvements and look for trouble spots.
- o. Algae baffle control - Cell 3.
- p. Build covered roof over aerator panel at Bird Road. Reduce heat problems in panel.
- q. Replace bad fence sections.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Industrial Pretreatment Program (IPP)

Accomplishments for 2006:

- a. Mercury Reduction Plan submitted to MDEQ.
- b. Sewer Use Ordinance (SUO) received MDEQ approval and Genesee County Board of Commissioners' adoption.
- c. Submittal of IPP annual report to MDEQ.
- d. Enforcement action: Show Cause Hearing and Order to Universal Coating.
- e. Trucked waste permit requirements (manifest, waste characterization, compliance with state and federal laws).
- f. GCDC-WWS minimum requirements for IPP general discharge permits.
- g. Prioritized communities with regards to SUO adoption.
- h. Outside laboratory price request and selection for 2006 (biosolids, plant effluent and IPP testing).
- i. Database linked to documents, permit forms and form letters.
- j. Website:
 - a. IPP web page.
 - b. Provided information for industrial users.
 - c. SUO available.
 - d. Septage application available.

Goals for 2007:

- a. SUO presented to local communities for review in February 2007.
- b. Local community SUO target implementation date of December 2007.
- c. Implementation of IPP fees, the application process, and BMP permit system structure ongoing with SUO.
- d. Provide training for community officials on ordinance revisions and application process following MDEQ approval - scheduled for June 21, 2007.
- e. Revised Mercury Reduction Plan and submitted to MDEQ.
- f. Outside laboratory price request and selection for 2007 (biosolids, plant effluent and IPP testing).
- g. Modified IPP procedures, Enforcement Response Plan, IPP annual inspection form, IPP application form, Industrial User Permit, and Septage Application to incorporate the streamlining of 403 regulations and submitted to MDEQ on June 1, 2007.
- h. Surcharge rate evaluation and inclusion of phosphorus and ammonia - Effective June 1, 2007.
- i. Development of IPP fees, application process, BMP permit system, and surcharge structure.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Industrial Pretreatment Program (IPP) (Continued)

- j. IPP Annual Report submitted to MDEQ on April 1, 2007.
- k. Re-issuance of all existing IPP permits.
- l. Determine the test methods used for VOCs. Will do this in conjunction with new ordinance. (Method 624 or 8260) Change permit wording. We need to evaluate our sampling requirements in permits. We need to eliminate TTOs from non-categorical users - another issue tied with the new ordinance. Ongoing - tied to their permit.
- m. Arsenic permits: Working on permitting 30+ sites, more coming in 2007. Working on arsenic sampling and permitting strategy, having a meeting on July 10, 2007 to review GCDC-WWS requirements.
- n. Development of a Septage Discharge Application in June 2007.
- o. Issue septage permits for Beecher Road and Livingston County septage receiving stations.
- p. Mercury reduction program and silver best management Program (BMP) implementation, submit silver program to DEQ for approval.
- q. Mercury, silver, and FOG sampling at pump stations. Would like to do some more trunk-line studies.
- r. Set up a filing system for silver, mercury, and grease and oil (color coded). Started filing permits separate for restaurants, and silver and mercury - ongoing.
- s. Update IPP database for existing and new business connected to GCDC-WWS sewer system.
- t. Update IPP of existing and new business in Fenton, Fenton Township, and Linden.
- u. Update IPP of existing and new business in Hartland and Tyrone Townships.
- v. Start evaluating local initiative limits for TPH and MTBE.
- w. Database training, link documents, set-up new databases.
- x. Website:
 - a. Provide additional information for industrial users.
 - b. Directions on how to complete applications.
 - c. Links to regulatory sites for assistance.
 - d. Online submittal of IPP applications.
- y. Continuation of the fat, oil, and grease (GOF) BMP program.
- z. Improve collections for annual fees and for violation fees.
- aa. Draft SAL procedures, training from Fishbeck, Thompson, Carr and Huber on SAL Excel spreadsheets.
- bb. Get an article together with approval of SUO for FOG, BMPs for Health Department newsletter.
- cc. Work on database tracking and set-up a violation table for tracking violations and IU status.
- dd. Industrial user enforcement - ongoing. Working with legal council on these.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Operation and Maintenance

Accomplishments for 2006:

- a. Completed CMOM guidelines and implemented maintenance program.
- b. Continued with the design of the telemetry/SCADA system upgrade.
- c. Continued efforts to improve water supply system.
- d. Added a fourth automated water hauler site.
- e. Improved security at water storage/pumping facilities.
- f. Completed Houran Street pump station upgrades.
- g. Continue to collect interceptor flow data with the data available via the Web.
- h. Started construction of the rain gauge network, expected to be completed during the second quarter of 2007.
- i. Continued efforts with pump station improvements.
- j. Started the pump station preventative maintenance program.

Goals for 2007:

- a. Complete the Flushing Park pump station wet well ventilation rehab and valve replacement project.
- b. Continue with pump station upgrades/improvements.
- c. Continue sanitary sewer jetting, televising, manhole inspection/repair programs (CMOM).
- d. Implement a comprehensive valve witness/repair program (additional staff required).
- e. Implement full utilization of the GIS and CityWorks programs.
- f. Complete the cleaning and painting of the Beecher Road elevated water storage tank and the ARTP elevated water storage tank.
- g. Bring the Center Road South water pumping station on-line.
- h. Complete the painting of the exterior of the can stations.

The operation and maintenance department is responsible for maintaining the sanitary sewer and water infrastructure in the majority of the communities in Genesee County. The day-to-day activities involve installing/replacing water meters, repairing valves, repairing hydrants, repairing water mains, inspecting both water and sewer pumping stations, repairing pumps, maintaining radio telemetry system, jetting and televising, inspecting and repairing manholes, and responding to customer complaints. Performing these tasks and duties effectively and efficiently along with improvements to the water and sewer infrastructure continue as the O/M departments primary goals and objectives.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Permits Group

Accomplishments for 2006:

- a. Developed a database to track ongoing project inspection fees.
- b. Developed a revised schedule of fees for plan review, construction observation, and soil erosion permit and review.
- c. Incorporated City of Flint's soil erosion program into the County's program.

Goals for 2007:

- a. Develop revised standard specifications in conjunction with Engineering Department
- b. Develop electronic process to coordinate project inspection between Division staff construction observers and consultants' inspection and project management team.
- c. Evaluate electronic record storage options.
- d. Complete Phase III of GIS and CityWorks - through 2007 - summarization and compilation.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Safety Department

Accomplishments for 2006:

- a. Completed projects from the 2005 DHS grants, which included surveillance system installations at Beecher storage tank, Fenton Road booster station, Fox station, Center Road South, one PTZ camera for ARTP.
- b. Wastewater plant vulnerability assessment 80 percent completed.
- c. While injury rates were slightly higher than 2005, they remained low with respect to our current insurance modification rate. Lost days due to injuries continued to decrease by 30 days from 2005.
- d. Upgraded all facilities to Xam 3000 4 gas detection systems for confined space entry. Training completed for all affected employees on new units.
- e. Purchased and trained employees on the use of 10 minute escape SCBAs to enhance our confined space entry program.
- f. Developed truck mounted boom crane operator certification and inspection training programs for each crane type throughout the Division and completed training for all affected employees.
- g. Developed forklift certification training programs for each forklift type throughout the Division and completed training for all affected employees.
- h. Increased contractor audits by 80 percent.
- i. Passed PSM program inspection from MIOSHA Industrial Hygiene Division updated PSM program to improve tracking and streamline auditing.
- j. Started monthly facility health and safety audit program.
- k. Completed annual training schedule.
- l. Updated Hepatitis A and B vaccinations with all employees.
- m. Completed training for new hires.
- n. Developed lockout/tagout procedures for all equipment pertaining to ARTP's disinfection building.
- o. Developed return to work program/procedure.
- p. Developed and delivered fall protection training program, which included all of the new storage tank systems.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Safety Department (Continued)

Goals for 2007:

- a. Update MSDS program and hazardous chemicals inventory at District 3 and 7.
- b. Establish safety committee at Linden facility.
- c. Develop at least 20 percent of required written lockout/tagout procedures at the wastewater treatment facilities.
- d. Implement return to work program.
- e. Train all supervisors/department heads in the return to work policy.
- f. Purchase automated external defibrillator units for the treatment plants and update emergency action plans to include medical emergency response as well as develop and conduct training for supervisors on AEDs.
- g. Inventory and properly dispose of accumulating chemical wastes from each location.
- h. Install battery back-up units on all II surveillance systems to prevent downtime and system rebooting required after power outages.
- i. Procure industrial hygiene sampling equipment to conduct internal air sampling when required.
- j. Write fire prevention plans for each facility and add them to the health and safety manual.
- k. Conduct fire extinguisher use and inspection training for O & M bargaining unit personnel.
- l. Conduct fire prevention surveys at all locations.
- m. Procure equipment for in-house quantitative fit testing and incorporate written fit test policy/procedure into the respiratory protection section of the Division's health and safety manual.
- n. Bring all facilities into compliance with NFPA 70e by modifying the current Division electrical safety program and training program, labeling motor control centers and purchasing required protective equipment mandated by the standard.
- o. Conduct safety training outlined on the 2007 matrix and continue with monthly audits as scheduled for each location.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Grant Acquisitions

The Division will continue with the allocations from the acquisition of several grants that were received during fiscal years 2004, 2005, and 2006.

- A program grant by the Army Corp. of Engineers as a joint venture for the engineering/design of a compatible rain gage network covering Genesee County.
- A Hazard Mitigation Grant (FEMA Grant) for 75 percent of costs for Curwood pump station electrical improvements. A contractor was hired for the improvement and a final grant request of \$139,714 was submitted for reimbursement in 2004. This grant was disapproved as more than electrical improvements were done.
- A STAG grant for work associated with the western trunk sewer extension and northeast extension sewer was appropriated by the EPA for 2003 at \$1,403,700 and collected in 2004, \$625,000 for 2004, and \$250,000 for 2005 of which neither has been collected. The Division has been advised of a STAG grant award for \$1.18 million.
- Two Clean Water Revolving Fund Program loans were approved for \$22,180,000 and \$15,505,000 to fund the construction of the northeast extension sewer. By year end, \$22,052,636 and \$15,231,945, respectively, were collected. A single audit was conducted in accordance with standards applicable to *Government Auditing Standards* issued by the comptroller general of the United States. Work was substantially complete in 2006. This report is available at the Drain Commissioner's office.

Rate Structure

The Division established a water rate in 2005 that separates out Division costs from purchasing costs from Detroit and Flint. The rate structure requires automatic increases based upon Detroit/Flint increases. The rates also were developed on a five-year basis for the Division's operation and maintenance costs.

The sewer rate studies were begun in 2005 with an anticipated completion date in 2007. Recognizing the need for additional operating funds in District #3 until the rates were adjusted, I&T has loaned funds to District #3. This will allow the rate study to be completed and only one rate increase to the customer base. The loan will be included in the rate model and be paid back on a five-year basis with interest. Sewer rate models will also be developed on a five-year basis. The rate models for #3 and #7 were completed and approved in May 2006. The I&T model is scheduled for an October 2007 approval.

Division operation contracts with local municipalities were extended six months or until June 30, 2007 to allow communities time to approve new agreements.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Using this Annual Report

The annual report consists of a series of financial statements. The statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows provide information about the activities of the Division as a whole and present a longer-term view of its finances.

Condensed Financial Information

The following table presents condensed information about the Division's financial position compared to the prior year:

| | December 31 | | Increase | |
|--|-----------------------|-----------------------|---------------------|---------|
| | 2006 | 2005 | (Decrease) | Percent |
| Assets: | | | | |
| Current assets | \$ 12,894,630 | \$ 16,842,801 | \$ (3,948,171) | (23.4) |
| Restricted assets | 4,845,274 | 17,707,682 | (12,862,408) | (72.6) |
| Other noncurrent assets | 86,604,998 | 73,128,369 | 13,476,629 | 18.4 |
| Capital assets | 222,181,223 | 183,471,592 | 38,709,631 | 21.1 |
| Total assets | 326,526,125 | 291,150,444 | 35,375,681 | 12.2 |
| Liabilities: | | | | |
| Current liabilities | 53,719,606 | 45,822,640 | 7,896,966 | 17.2 |
| Liabilities payable from restricted assets | 6,266,069 | 5,983,010 | 283,059 | 4.7 |
| Other noncurrent liability | 727,281 | 107,573 | 619,708 | 576.1 |
| Long-term debt | 135,917,048 | 108,576,420 | 27,340,628 | 25.2 |
| Total liabilities | 196,630,004 | 160,489,643 | 36,140,361 | 22.5 |
| Net assets: | | | | |
| Invested in capital assets - Net of related debt | 125,784,175 | 119,164,169 | 6,620,006 | 5.6 |
| Restricted for capital outlay | 12,586,322 | 1,304,255 | 11,282,067 | 865.0 |
| Restricted for debt service | 663,665 | 620,895 | 42,770 | 6.9 |
| Unrestricted | (9,138,041) | 9,571,482 | (18,709,523) | (195.5) |
| Total net assets | <u>\$ 129,896,121</u> | <u>\$ 130,660,801</u> | <u>\$ (764,680)</u> | (0.6) |

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

| | Year Ended December 31 | | Increase (Decrease) | Percent |
|---|------------------------|---------------|------------------------|---------|
| | 2006 | 2005 | | |
| Revenue from operations | \$ 33,245,651 | \$ 33,097,254 | \$ 148,397 | 0.4 |
| Interest on operating cash | 2,614,773 | 866,599 | 1,748,174 | 201.7 |
| Total revenue | 35,860,424 | 33,963,853 | 1,896,571 | 5.6 |
| Sludge disposal charges | 1,319,089 | 1,093,821 | 225,268 | 20.6 |
| Cost of water | 7,875,096 | 9,159,871 | (1,284,775) | (14.0) |
| Operating and maintenance | 19,296,771 | 18,561,402 | 735,369 | 4.0 |
| Administrative and depreciation | 5,945,334 | 4,386,932 | 1,558,402 | 35.5 |
| Total operating expenses | 34,436,290 | 33,202,026 | 1,234,264 | 3.7 |
| Other nonoperating revenue (expense) | (2,188,814) | 2,253,939 | (4,442,753) | (197.1) |
| Change in net assets - Before capital contributions | (764,680) | 3,015,766 | (3,780,446) | (125.4) |
| Capital contributions | - | 575,416 | (575,416) | (100.0) |
| Change in net assets | \$ (764,680) | \$ 3,591,182 | \$ (4,355,862) | (121.3) |

Major Capital Assets and Debt Activity

In 2003, bonds were issued in the amount of \$9,000,000 for the purpose of defraying the cost of acquisition and construction of additional sewer interceptor mains, together with related sites, structures, equipment, and appurtenance, to be known as the western trunk relief sewer. These projects were started in 2003 and completed in 2005. At December 31, 2005, assets were recorded for the western trunk extension and the Curwood pump station at \$10,224,966 and \$1,623,917, respectively. The STAG Grant of \$1,403,700 was applied to this project.

The northeast sewer extension, at a cost of \$45,499,345, has been recognized as construction in progress, which has been funded by reserves and SRF funding from the state and federal governments. The SRF funding is described above under the acquisition of grants.

In 2003, bonds were issued in the amounts of \$9,000,000 and \$18,000,000 and in 2004 bonds were issued for \$14,960,000 for the purpose of paying the costs of improvements and extensions to the County's water supply system. These issues are being used for the construction of various water reservoirs and pumping stations for water distribution to the consumers of Genesee County and extension of the North Loop III. At December 31, 2006, the cost for water of \$10,739,308 and \$41,200,115 for the North Water Loop Phase III has been recognized as construction in progress.

During the year 2006, Capital Improvement Funds (CCIF) were used to pay the revenue debt associated with the Western Trunk and Water Supply III in the amounts of \$685,353 and \$1,903,218, respectively.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Financial Overview

In analyzing the Division of Water and Waste Service's financial position, it is important to recognize the mission of the agency, which has been previously stated. A discussion of the significant financial activity during the current year is as follows:

- Restricted cash assets decreased in the current year by approximately \$12,862,000, primarily due to the retirement of debt related to capital projects and the increase of capital assets. This activity is described in greater detail in the major capital assets and debt activity section.
- Other noncurrent assets increased in the current year by approximately \$13,477,000, primarily due to the increase in local unit construction in progress.
- Capital assets increased by approximately \$38,710,000 in the current year due to several capital programs that are described in greater detail in the major capital assets and debt activity section.
- Long-term debt increased in the current year due to issuance of new bonds for construction.
- Overall, net assets changed by 0.6 percent as restricted amounts were transferred to and invested in capital assets when completed and the change in net assets decreased by (121.3 percent), as major repairs and improvement were completed in 2006.
- Revenue in the current year increased primarily due to increased usage from customers and the increase in rates for water supply.
- Interest expense increased primarily due to increased usage from customers and the increase in rates for water supply.
- Interest expense increased primarily due to bonds held for construction.
- Operating and maintenance costs increased as efforts were made for repairs needed for increased efficiency to the sewer systems, the increase in costs for water supply, and increase of personnel wages and fringe benefits.
- During 2006, bonds were issued in the amount of \$3,665,000 for the purpose of funding construction for the Western Sub-Trunk sewer project.
- In 2006, a \$6,000,000 revenue water bond was issued, the proceeds from the bond sale were received in 2007.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The following table shows the trend in total operating costs compared to flow volumes for sewage treatment:

| | Year Ended December 31 | | |
|-----------------------------------|------------------------|---------------|---------------|
| | 2004 | 2005 | 2006 |
| Total costs charged to townships | \$ 15,994,472 | \$ 16,420,098 | \$ 16,758,576 |
| Total flow (thousands of gallons) | 9,906,246 | 12,172,890 | 12,323,140 |
| Cost per thousand of gallons | \$ 1.61 | \$ 1.35 | \$ 1.36 |

No increases of rates in 2005 or 2006 were implemented, as a full sewer rate study being implemented in 2005 and to be completed in 2007 will show what rates are needed to cover estimated future costs for the operations capable of repairing and updating methods of treatment for better efficiency.

The following table shows the trend in total operating costs compared to efficiency of water purchased:

| | Year Ended December 31 | | |
|-------------------------------------|------------------------|---------------|---------------|
| | 2004 | 2005 | 2006 |
| Total costs charged to townships | \$ 13,776,788 | \$ 14,923,675 | \$ 14,375,301 |
| Amount of purchased water (cu. ft.) | 689,325,243 | 749,012,899 | 715,678,137 |
| Amount of sold water | 665,654,727 | 725,581,002 | 714,488,431 |
| Water efficiency | 97% | 97% | 100% |

The Division purchases water from the City of Flint, which in turn purchases water from the City of Detroit. The Division's payment to Flint is a flat rate of \$109,289 per month plus a commodity charge equal to the charge from Detroit to Flint for water. For August 2005 through July 2006, the rate was \$10.56/mcf. As described previously, the flat rate will increase according to the CPI-W percentage. With these rates increasing each year, the Division had a water rate study completed in 2004. The study presented the concept of an inclining rate structure to which the Division implemented the rate changes as of January 1, 2005. The rate increases from Detroit to the City of Flint and then to the County are a pass-through to the customers from August 1, 2006 to the present and were \$11.09/mcf.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Contacting the Division's Management

This financial report is intended to provide our constituents, sewer/water users, and bondholders with a general overview of the Genesee County Drain Commissioner Division of Water and Waste Services accountability for the money it receives. These financial statements are included as a component unit of Genesee County and should be viewed as part of the government-wide financial statements. If there are questions about this report or if additional information is needed, we welcome anyone to contact the Drain Commissioner or the director of the Division.

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Assets - Proprietary Fund Types

| | December 31 | | | |
|--|----------------------|--------------------------|----------------------|----------------------|
| | 2006 | | | 2005 |
| | Enterprise Fund | Internal Service Fund | Total | Total |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 2) | \$ 2,476,228 | \$ 135,807 | \$ 2,612,035 | \$ 8,699,777 |
| Accounts receivable | 4,899,782 | - | 4,899,782 | 3,130,721 |
| Prepaid expenses | 224,884 | - | 224,884 | - |
| Due from other governmental units | 183,678 | - | 183,678 | 128,573 |
| Current portion of leases receivable | 4,930,000 | - | 4,930,000 | 4,860,000 |
| Inventory | 44,251 | - | 44,251 | 23,730 |
| Total current assets | 12,758,823 | 135,807 | 12,894,630 | 16,842,801 |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents (Note 2) | 4,845,274 | - | 4,845,274 | 17,707,682 |
| Due from other governmental units | 8,090,529 | - | 8,090,529 | 6,672,051 |
| Leases receivable - Net of current portion | 43,370,000 | - | 43,370,000 | 44,635,000 |
| Local unit construction in progress | 35,144,469 | - | 35,144,469 | 21,821,318 |
| Capital assets (Note 3): | | | | |
| Land and other assets not being depreciated | 105,496,450 | - | 105,496,450 | 81,222,606 |
| Buildings and equipment - Net of depreciation | 113,762,284 | 2,922,489 | 116,684,773 | 102,248,986 |
| Total noncurrent assets | 310,709,006 | 2,922,489 | 313,631,495 | 274,307,643 |
| Total assets | 323,467,829 | 3,058,296 | 326,526,125 | 291,150,444 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Drafts payable | 4,228,805 | - | 4,228,805 | 1,580,272 |
| Accounts payable and accrued expenses | 2,375,619 | 25,091 | 2,400,710 | 2,927,751 |
| Due to other governmental units | 507,095 | - | 507,095 | 57,342 |
| Internal balances | 141,788 | (141,788) | - | - |
| Unearned leases | 37,802,996 | - | 37,802,996 | 34,237,275 |
| Current portion of bonds payable (Note 4) | 8,780,000 | - | 8,780,000 | 7,020,000 |
| Total current liabilities | 53,836,303 | (116,697) | 53,719,606 | 45,822,640 |
| Noncurrent liabilities: | | | | |
| Liabilities related to restricted assets | 6,266,069 | - | 6,266,069 | 5,983,010 |
| Due to other governmental units | 97,623 | - | 97,623 | - |
| Deferred revenue | 629,658 | - | 629,658 | 107,573 |
| Bonds payable - Net of current portion (Note 4) | 135,917,048 | - | 135,917,048 | 108,576,420 |
| Total noncurrent liabilities | 142,910,398 | - | 142,910,398 | 114,667,003 |
| Total liabilities | 196,746,701 | (116,697) | 196,630,004 | 160,489,643 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 122,861,686 | 2,922,489 | 125,784,175 | 119,164,169 |
| Restricted for capital outlay | 12,586,322 | - | 12,586,322 | 1,304,255 |
| Restricted for debt service | 663,665 | - | 663,665 | 620,895 |
| Unrestricted | (9,390,545) | 252,504 | (9,138,041) | 9,571,482 |
| Total net assets | <u>\$126,721,128</u> | <u>\$ 3,174,993</u> | <u>\$129,896,121</u> | <u>\$130,660,801</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Revenue, Expenses, and Changes in Net Assets - Proprietary Fund Types

| | Year Ended December 31 | | | | |
|--|------------------------|--------------------------|------------------|-----------------------|-----------------------|
| | 2006 | | | | 2005 |
| | Enterprise Fund | Internal Service Fund | Eliminations | Total | Total |
| Operating Revenue | | | | | |
| Sewage disposal service | \$ 16,758,576 | \$ - | \$ - | \$ 16,758,576 | \$ 16,420,098 |
| Billing services | 97,127 | - | - | 97,127 | 79,592 |
| Sewer and pumping station - | | | | | |
| Operation and maintenance | 630,323 | - | - | 630,323 | 522,110 |
| Inspection fees | 6,550 | - | - | 6,550 | 17,808 |
| Water sales | 14,375,301 | - | - | 14,375,301 | 14,923,675 |
| Water meter sales | 115,745 | - | - | 115,745 | 153,417 |
| Billing to Enterprise Fund | - | 638,648 | (638,648) | - | - |
| Rental income | - | 50 | (50) | - | - |
| Other operating revenue | 1,256,709 | 5,320 | - | 1,262,029 | 980,554 |
| Total operating revenue | 33,240,331 | 644,018 | (638,698) | 33,245,651 | 33,097,254 |
| Operating Expenses | | | | | |
| Personnel services | 12,017,862 | - | - | 12,017,862 | 11,768,203 |
| Contractual services | 1,681,622 | 263,034 | - | 1,944,656 | 1,251,217 |
| Sludge disposal service | 1,319,089 | - | - | 1,319,089 | 1,093,821 |
| Cost of water | 7,875,096 | - | - | 7,875,096 | 9,159,871 |
| Repairs and maintenance | 3,435,933 | 12,346 | - | 3,448,279 | 2,654,518 |
| Utilities | 2,964,778 | - | - | 2,964,778 | 2,885,422 |
| Other supplies and expenses | 1,504,550 | - | (638,698) | 865,852 | 1,253,259 |
| Insurance claims and expenses | 402,778 | 61,326 | - | 464,104 | 552,440 |
| Depreciation | 2,947,534 | 589,040 | - | 3,536,574 | 2,583,275 |
| Total operating expenses | 34,149,242 | 925,746 | (638,698) | 34,436,290 | 33,202,026 |
| Operating Income (Loss) | (908,911) | (281,728) | - | (1,190,639) | (104,772) |
| Nonoperating Revenue (Expense) | | | | | |
| Interest and investment revenue | 2,608,931 | 5,842 | - | 2,614,773 | 866,599 |
| Miscellaneous revenue | 2,658,100 | 44,737 | - | 2,702,837 | 5,061,175 |
| Interest expense | (4,891,651) | - | - | (4,891,651) | (2,807,236) |
| Total nonoperating revenue | 375,380 | 50,579 | - | 425,959 | 3,120,538 |
| Income (Loss) - Before capital contributions and operating transfer | (533,531) | (231,149) | - | (764,680) | 3,015,766 |
| Capital Contributions | - | - | - | - | 575,416 |
| Operating Transfer | (174,233) | 174,233 | - | - | - |
| Change in Net Assets | (707,764) | (56,916) | - | (764,680) | 3,591,182 |
| Net Assets - Beginning of year | 127,428,892 | 3,231,909 | - | 130,660,801 | 127,069,619 |
| Net Assets - End of year | \$ 126,721,128 | \$ 3,174,993 | \$ - | \$ 129,896,121 | \$ 130,660,801 |

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows - Proprietary Fund Types

| | Year Ended December 31 | | | |
|---|------------------------|-----------------------|---------------------|----------------------|
| | 2006 | | | 2005 |
| | Enterprise Fund | Internal Service Fund | Total | Total |
| Cash Flows from Operating Activities | | | | |
| Cash received from customers | \$ 31,832,116 | \$ 554,095 | \$ 32,386,211 | \$ 34,135,572 |
| Cash payments to suppliers and others for goods and services | (11,721,145) | (410,892) | (12,132,037) | (23,284,351) |
| Cash payments to employees | (19,513,388) | - | (19,513,388) | (11,768,203) |
| Net cash provided by (used in) operating activities | 597,583 | 143,203 | 740,786 | (916,982) |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Purchases of capital assets | (52,632,452) | (428,604) | (53,061,056) | (42,779,790) |
| Proceeds from sale of capital assets | - | 44,737 | 44,737 | 5,290 |
| Capital contributions from (to) communities | (3,665,000) | - | (3,665,000) | 18,023,646 |
| County capital improvement fees | 2,398,950 | - | 2,398,950 | 4,677,005 |
| Collections of leases receivable from municipalities | 6,991,402 | - | 6,991,402 | 4,990,000 |
| Amounts paid on behalf of municipalities | - | - | - | (5,492,537) |
| Proceeds from issuance of revenue bond | - | - | - | 5,471,420 |
| Proceeds from issuance of bonded debt | 36,120,628 | - | 36,120,628 | 15,840,000 |
| Principal paid on bond maturities | (7,020,000) | - | (7,020,000) | (17,435,000) |
| Interest paid on bonds and other long-term liabilities | (4,891,651) | - | (4,891,651) | (2,821,562) |
| Premium on bonded debt | - | - | - | 382,223 |
| Proceeds on grants | 259,150 | - | 259,150 | (3,343) |
| Net cash used in capital and related financing activities | (22,438,973) | (383,867) | (22,822,840) | (19,142,648) |
| Cash Flows from Investing Activities | | | | |
| Investment income | 477,529 | 5,842 | 483,371 | 880,925 |
| Operating transfer | (174,233) | 174,233 | - | - |
| Net cash provided by investing activities | 303,296 | 180,075 | 483,371 | 880,925 |
| Net Decrease in Cash and Cash Equivalents | (21,538,094) | (60,589) | (21,598,683) | (19,178,705) |
| Cash and Cash Equivalents - Beginning of year | 24,630,791 | 196,396 | 24,827,187 | 44,005,892 |
| Cash and Cash Equivalents - End of year | \$ 3,092,697 | \$ 135,807 | \$ 3,228,504 | \$ 24,827,187 |

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows - Proprietary Fund Types (Continued)

| | Year Ended December 31 | | | |
|---|------------------------|-----------------------|---------------------|----------------------|
| | 2006 | | | 2005 |
| | Enterprise Fund | Internal Service Fund | Total | Total |
| Reconciliation of Operating Loss to Net Cash from Operating Activities | | | | |
| Operating loss | \$ (908,911) | \$ (281,728) | \$ (1,190,639) | \$ (104,772) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation | 2,947,534 | 589,040 | 3,536,574 | 2,583,275 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | (1,769,061) | - | (1,769,061) | 48,504 |
| Inventories | (20,521) | - | (20,521) | (14,917) |
| Prepaid assets | (224,884) | - | (224,884) | - |
| Accounts payable, accrued expenses, and deferred revenue | 5,235 | (74,186) | (68,951) | 1,770,396 |
| Internal balances | 89,923 | (89,923) | - | - |
| Due to (from) other governmental units - Net | 478,268 | - | 478,268 | (5,199,468) |
| Net cash provided by (used in) operating activities | <u>\$ 597,583</u> | <u>\$ 143,203</u> | <u>\$ 740,786</u> | <u>\$ (916,982)</u> |
| Composition of Cash and Cash Equivalents | | | | |
| Cash and cash equivalents | \$ 2,476,228 | \$ 135,807 | \$ 2,612,035 | \$ 8,699,777 |
| Restricted cash and cash equivalents | 4,845,274 | - | 4,845,274 | 17,707,682 |
| Drafts payable | (4,228,805) | - | (4,228,805) | (1,580,272) |
| Total cash and cash equivalents | <u>\$ 3,092,697</u> | <u>\$ 135,807</u> | <u>\$ 3,228,504</u> | <u>\$ 24,827,187</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The Genesee County Drain Commissioner Division of Water and Waste Services (the "Division") was organized in September 1965 under Public Act No. 342 of 1939 of the State of Michigan (amended in 1967). The Division's major operations are the construction and operation of water and waste systems in Genesee County, Michigan (the "County") and certain areas in surrounding counties. Construction is financed with proceeds from the sale of bonds and federal and state grants. The operating activities are financed primarily through user charges to municipalities in the systems.

The financial statements of the Division have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Division's accounting policies are described below.

Reporting Entity - Included within the reporting entity are the following:

- Genesee County Sewage Disposal Systems Nos. 1, 2, 5, and 6 (interceptors and treatment facilities)
- Genesee County Sanitary Sewage Disposal Systems Nos. 3 and 7
- Genesee County Water Supply Systems
- Genesee County Division of Water and Waste Services - Vehicle and Equipment Fund (Internal Service Fund)

In evaluating how to define the Division for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governmental body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Division is able to exercise oversight responsibilities. Based on the application of these criteria, there are no component units to be included in these financial statements.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Division reports the following major proprietary funds:

- The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.
- The Internal Service Fund accounts for financing of goods and services provided by one department to other departments of the Division on a cost-plus basis.

The Division has elected, under GASB Statement No. 20, to apply all Financial Accounting Standards Board (FASB) statements issued after November 30, 1989, unless they conflict with the guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the basic financial statements. Exceptions to this general rule are charges between the Division's water and sewer function and various other functions of the Division. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Division's proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

Short-term Financial Instruments - The fair value of short-term financial instruments, including cash and cash equivalents, trade accounts receivable and payable, accrued receivables, and accrued liabilities, is equal to the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

Receivables and Payables - Outstanding balances between funds are reported in the basic financial statements as "internal balances." All trade receivables are shown as net of an allowance for uncollectible amounts.

Inventories - Inventories consist primarily of water meters and grinder pumps, valued at cost, using the first-in, first-out method. The cost of supply inventory is recorded as an expense when consumed rather than when purchased.

Leases Receivable - Leases receivable consist of amounts due to the Division from various municipalities for construction activity. The Division constructs assets for various municipalities under Acts 185 and 342. Under these acts, the County issues bonds and constructs assets on behalf of municipalities. These assets are then leased by the municipalities over the life of the bonds. Lease payments approximate the debt service requirements of the associated bonds.

Local Unit Construction in Progress - Local unit construction in progress represents construction of water and sewer distribution and collection systems performed by the Division for local communities. The projects are recorded as an asset during the construction phase and are offset by an unearned lease. When the projects are substantially complete, the asset and unearned lease are removed from the financial statements and an asset is recorded by the local community.

Restricted Assets - Certain assets are restricted by the Division's bond ordinances. In addition, unspent bond proceeds and County capital improvement fees are restricted for the construction of water collection and sewage disposal systems projects. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Postemployment Benefits - In addition to the pension benefits described in Note 5, the Division provides postemployment health care, dental, and life insurance benefits after retirement through a contractual agreement. The Division is responsible for 100 percent of the cost of postretirement benefits and funds these costs as they are incurred. Postretirement benefits for retired employees were \$969,132 and \$803,913 for the years ended December 31, 2006 and 2005, respectively. The total number of eligible retirees amounted to 77 and 66 individuals during December 31, 2006 and 2005, respectively.

Compensated Absences - The Division's employees are granted vacation and personal leave in graduated amounts based on length of service. Vacation pay is fully vested when earned. Upon termination, employees are paid accumulated vacation at current salary rates to a limit of 150 percent of their current annual earned vacation. At December 31, 2006 and 2005, the Division has recorded a liability of approximately \$467,000 and \$496,000, respectively, for accumulated vacation leave.

Unearned Leases - Unearned leases represent cash and investments and construction in progress, recorded on the Division's books, belonging to the municipalities participating in the water collection and sewage disposal system.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property, Plant, and Equipment - Additions to property, plant, and equipment are recorded at cost or, if donated, at their estimated fair value at the time of donation. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Depreciation has been calculated on each class of property using the straight-line method based on the estimated useful lives of the assets, as follows:

| | |
|--|--------------|
| Land improvements and underground networks | 25-100 years |
| Buildings | 50 years |
| Machinery and equipment | 3-15 years |

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2006

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Division has designated three banks for the deposit of its funds. The investment policy adopted by the drain commissioner in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The drain commissioner's deposits and investment policies are in accordance with statutory authority.

The drain commissioner's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Division's deposits may not be returned to it. The Division does not have a deposit policy for custodial credit risk. At year end, the drain commissioner had \$3,703,353 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The drain commissioner believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Division evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2006

Note 3 - Capital Assets

The following is a summary of proprietary fund type capital assets at December 31, 2006:

| | Balance January 1, 2006 | Increases | Decreases | Balance December 31, 2006 |
|--|-------------------------------|---------------|-----------------|---------------------------------|
| Proprietary funds capital assets: | | | | |
| Enterprise Fund: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 803,596 | \$ 307,704 | \$ - | \$ 1,111,300 |
| Distribution and collections systems | 16,294,182 | - | (16,294,182) | - |
| Construction in progress | 63,882,858 | 40,502,291 | - | 104,385,149 |
| Subtotal | 80,980,636 | 40,809,995 | (16,294,182) | 105,496,449 |
| Capital assets being depreciated: | | | | |
| Distribution and collections system | 52,419,614 | 16,294,182 | - | 68,713,796 |
| Buildings and equipment | 72,017,622 | 1,007,604 | - | 73,025,226 |
| Subtotal | 124,437,236 | 17,301,786 | - | 141,739,022 |
| Less accumulated depreciation for: | | | | |
| Distribution and collections system | (8,359,728) | (2,488,268) | - | (10,847,996) |
| Buildings and equipment | (16,669,477) | (459,264) | - | (17,128,741) |
| Subtotal | (25,029,205) | (2,947,532) | - | (27,976,737) |
| Net capital assets being depreciated | 99,408,031 | 14,354,254 | - | 113,762,285 |
| Total capital assets - Net of depreciation | 180,388,667 | 55,164,249 | (16,294,182) | 219,258,734 |
| Internal Service Fund: | | | | |
| Capital assets not being depreciated - | | | | |
| Construction in progress | 241,970 | - | (241,970) | - |
| Capital assets being depreciated - Buildings and equipment | 6,194,241 | 670,574 | (238,905) | 6,625,910 |
| Less accumulated depreciation - Buildings and equipment | (3,353,286) | (589,040) | 238,905 | (3,703,421) |
| Net capital assets being depreciated | 2,840,955 | 81,534 | - | 2,922,489 |
| Total capital assets - Net of depreciation | 3,082,925 | 81,534 | (241,970) | 2,922,489 |
| Total proprietary funds capital assets | \$ 183,471,592 | \$ 55,245,783 | \$ (16,536,152) | \$ 222,181,223 |

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2006

Note 3 - Capital Assets (Continued)

Construction Commitments - The Division has active construction projects at year end. The projects include improvements and extensions to the water and sewage disposal systems. At December 31, 2006, the Division's commitments with contractors are as follows:

| | Spent to Date | Remaining Commitment |
|--------------------------------------|-----------------------|-------------------------|
| Interceptor and treatment facilities | \$ 57,292,285 | \$ 13,717,536 |
| Sewage disposal system, District 3 | 15,578,157 | 4,435,602 |
| Water supply system | 34,359,687 | 2,681,901 |
| Total | \$ 107,230,129 | \$ 20,835,039 |

Note 4 - Bonds Payable

The Division issues bonds to provide for the construction of water and waste systems in Genesee County and certain areas in surrounding counties. General obligation bonds are direct obligations that pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service and require certain financial covenants to be met. During the year ended December 31, 2006, the Division was in violation of these covenants.

The following is a summary of bond transactions for the Division for the year ended December 31, 2006:

| | Number of Issues | Interest Rate | Maturing Through | Balance January 1, 2006 | Additions | Reductions | Balance December 31, 2006 | Due Within One Year |
|---|---------------------|------------------|---------------------|-------------------------------|----------------------|-----------------------|---------------------------------|------------------------|
| Genesee County Drain Commissioner bonds payable: | | | | | | | | |
| Interceptor and treatment facilities | 6 | 1.625%-5.00% | 2026 | \$ 25,426,420 | \$ 32,455,628 | \$ (1,275,000) | \$ 56,607,048 | \$ 2,930,000 |
| Water supply system | 3 | 2.50%-5.00% | 2033 | 40,675,000 | - | (885,000) | 39,790,000 | 920,000 |
| Subtotal | | | | 66,101,420 | 32,455,628 | (2,160,000) | 96,397,048 | 3,850,000 |
| Community-related bonds payable: | | | | | | | | |
| Interceptor and treatment facilities | 15 | 3.75%-7.00% | 2026 | 9,280,000 | - | 1,505,000 | 10,785,000 | 2,145,000 |
| District No. 3 | 9 | 2.50%-7.375% | 2024 | 39,050,000 | - | (2,315,000) | 36,735,000 | 2,405,000 |
| District No. 7 | 1 | 3.70%-5.60% | 2008 | 250,000 | - | (75,000) | 175,000 | 75,000 |
| Water supply system | 3 | 3.75%-8.00% | 2008 | 915,000 | - | (310,000) | 605,000 | 305,000 |
| Subtotal | | | | 49,495,000 | - | (1,195,000) | 48,300,000 | 4,930,000 |
| Total | | | | \$ 115,596,420 | \$ 32,455,628 | \$ (3,355,000) | \$ 144,697,048 | \$ 8,780,000 |

Genesee County Drain Commissioner **Division of Water and Waste Services**

Notes to Financial Statements **December 31, 2006**

Note 4 - Bonds Payable (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

| Years Ending December 31 | Principal | Interest | Total |
|-----------------------------|-----------------------|----------------------|-----------------------|
| 2007 | \$ 8,780,000 | \$ 5,146,948 | \$ 13,926,948 |
| 2008 | 8,645,000 | 4,856,500 | 13,501,500 |
| 2009 | 6,855,000 | 4,582,489 | 11,437,489 |
| 2010 | 7,155,000 | 4,352,567 | 11,507,567 |
| 2011 | 7,355,000 | 4,102,974 | 11,457,974 |
| 2012-2016 | 39,772,467 | 16,292,446 | 56,064,913 |
| 2017-2021 | 29,615,000 | 9,726,172 | 39,341,172 |
| 2022-2026 | 24,939,581 | 5,277,056 | 30,216,637 |
| 2027-2031 | 9,410,000 | 1,889,131 | 11,299,131 |
| 2032-2033 | 2,170,000 | 166,819 | 2,336,819 |
| Total | <u>\$ 144,697,048</u> | <u>\$ 56,393,102</u> | <u>\$ 201,090,150</u> |

Defeased Debt

During 2005, the Division issued \$15,840,000 in Refunding Bonds with an average interest rate of 4 percent. The Division defeased Series 1996A Sewage Disposal System Bonds and Series 1999 Mt. Morris Township Sewer Program Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. The remaining outstanding liability on the old bonds is \$950,000 and \$500,000, respectively. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2006 and 2005, \$16,750,000 of bonds outstanding are considered defeased. The advance refunding reduced total debt service payments over the next 14 years by approximately \$596,000, which represents an economic gain of approximately \$479,000.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2006

Note 5 - Pension Plan

Plan Description - The Division participates in the Genesee County Employees' Retirement System (GCERS), which is a contributory agent multiemployer defined benefit plan providing for pension and disability benefits for substantially all Genesee County employees. Each employer has the ability to negotiate and/or establish benefits through personnel policies. The authority to establish and amend the benefit provisions of the plan is governed by Act No. 156, Public Acts of 1851, as amended by the State of Michigan. The GCERS issues a publicly available financial report that includes financial statements and required supplementary information for the Division. That report may be obtained by writing to Genesee County Employees' Retirement System, 1101 Beach, Flint, MI 48502 or by calling 1-800-949-2627.

Funding Policy - The County's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost is determined using an attained age actuarial funding method.

Annual Pension Cost - During 2006 and 2005, the Division's annual pension cost of \$1,582,066 and \$1,203,954, respectively, was equal to the Division's required and actual contributions. The required contributions were determined as part of the December 31, 2005 and 2003 actuarial valuations, using the entry age actuarial cost method. The County did not have an actuarial valuation performed for the actuarial year ended December 31, 2004. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually and (b) projected salary increases of 5.00 percent to 9.03 percent per year compounded annually. Both (a) and (b) included an inflation component of 5.00 percent. The actuarial value of the Division's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Division's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis, with the remaining amortization period at December 31, 2006 of 20 years.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2006

Note 5 - Pension Plan (Continued)

Schedule of Employer Contributions

| Fiscal Year Ended December 31 | Valuation Date December 31 | Contribution Rate as Percentage of Valuation Payroll | Required Contribution | Actual Reported Contribution |
|-------------------------------------|----------------------------------|--|--------------------------|------------------------------------|
| 2004 | 2002 | 14.00 | \$ 985,616 | \$ 985,616 |
| 2005 | 2003 | 15.94 | 1,203,954 | 1,203,954 |
| 2006 | 2005 | 17.11 | 1,582,066 | 1,582,066 |

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Valuation Payroll (c) | (UAAL) as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|-----------------------------|--|
| 2001 | \$ 35,333,000 | \$ 31,210,000 | \$ (4,123,000) | 113.2 | \$ 5,452,000 | (75.6) |
| 2002 | 34,360,035 | 34,969,330 | 609,295 | 98.3 | 6,452,516 | 9.4 |
| 2003 | 33,620,996 | 35,846,959 | 2,225,963 | 93.8 | 7,462,807 | 29.8 |
| 2004 | 33,560,800 | 37,135,406 | 3,574,606 | 90.4 | 7,736,745 | 46.2 |
| 2005 | 34,908,400 | 39,047,872 | 4,139,472 | 89.4 | 8,138,717 | 50.9 |

Note 6 - New Accounting Pronouncement

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2006

Note 7 - Risk Management

The Division is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Division has purchased commercial insurance for all claims. Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Contingencies and Commitments

Various claims and lawsuits are pending against the Division. One such lawsuit relates to the County Capital Improvement Fees (CCIF) reported in the I&T Division and the Water Division. These fees represent charges for connection to the water and sewer systems in relation to system expansion. The Division had collected approximately \$13,214,000 as of December 31, 2005. In 2006, a judgment in the Appellate Court has been rendered in favor of the Division. Therefore, no liability has been recognized in the financial statements. Because of the judgment, \$3,663,790 was used to pay on the debt issued for the Western Trunk Relief Sewer and Water Supply III. In 2006, the case was in appeals with the Michigan Supreme Court, and the appeals were denied. All other claims and lawsuits, in the opinion of management, will not have a significant effect on the Division's financial statements.

Supplemental Information

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Assets (Deficit) (Divisional Detail) - Enterprise Fund

| | December 31 | | | | | |
|--|---|--|-------------------|----------------------------|-----------------------|-----------------------|
| | 2006 | | | | | 2005 |
| | Interceptor and Treatment Facilities | Sewage Disposal Systems District No. 3 | District No. 7 | Water Supply Systems | Total | Total |
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 2,476,228 | \$ 2,476,228 | \$ 8,339,647 |
| Accounts receivable | 2,102,531 | 467,981 | 180,207 | 2,149,063 | 4,899,782 | 3,130,721 |
| Prepaid expenses | 224,884 | - | - | - | 224,884 | - |
| Internal balances | 3,682,651 | 7,499 | 243 | 11,751 | 3,702,144 | - |
| Due from other governmental units | 83,620 | - | - | 100,058 | 183,678 | 128,573 |
| Current portion of leases receivable | 2,145,000 | 2,405,000 | 75,000 | 305,000 | 4,930,000 | 4,860,000 |
| Inventory | - | - | - | 44,251 | 44,251 | 23,730 |
| Total current assets | 8,238,686 | 2,880,480 | 255,450 | 5,086,351 | 16,460,967 | 16,482,671 |
| Noncurrent assets: | | | | | | |
| Restricted cash and cash equivalents | 628,433 | 2,649,056 | 1,479 | 1,566,306 | 4,845,274 | 17,707,682 |
| Due from other governmental units | 4,053,443 | 1,310,717 | 42,845 | 2,683,524 | 8,090,529 | 6,672,051 |
| Leases receivable - Net of current portion | 8,640,000 | 34,330,000 | 100,000 | 300,000 | 43,370,000 | 44,635,000 |
| Local unit construction in progress | 4,763,620 | 27,708,185 | 42,845 | 2,629,819 | 35,144,469 | 21,821,318 |
| Capital assets: | | | | | | |
| Land and other assets not being depreciated | 51,813,532 | - | - | 53,682,918 | 105,496,450 | 80,980,636 |
| Buildings and equipment - Net of depreciation | 103,498,344 | 90,734 | 10,765 | 10,162,441 | 113,762,284 | 99,408,031 |
| Total noncurrent assets | 173,397,372 | 66,088,692 | 197,934 | 71,025,008 | 310,709,006 | 271,224,718 |
| Total assets | 181,636,058 | 68,969,172 | 453,384 | 76,111,359 | 327,169,973 | 287,707,389 |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Drafts payable | 2,839,953 | 1,302,681 | 86,171 | - | 4,228,805 | 1,416,538 |
| Accounts payable and accrued expenses | 1,204,601 | 136,331 | 31,355 | 1,003,332 | 2,375,619 | 2,906,710 |
| Due to other governmental units | 494,515 | - | - | 12,580 | 507,095 | 57,342 |
| Internal balances | 124,694 | 3,678,725 | 2,282 | 38,231 | 3,843,932 | - |
| Bonds payable | 5,075,000 | 2,405,000 | 75,000 | 1,225,000 | 8,780,000 | 7,020,000 |
| Total current liabilities | 9,738,763 | 7,522,737 | 194,808 | 2,279,143 | 19,735,451 | 11,400,590 |
| Noncurrent liabilities: | | | | | | |
| Liabilities related to restricted assets | 3,771,433 | 1,135,714 | - | 1,358,922 | 6,266,069 | 5,904,774 |
| Due to other governmental units | - | 97,623 | - | - | 97,623 | 51,865 |
| Deferred revenue | 271,800 | - | - | 357,858 | 629,658 | 107,573 |
| Unearned lease | 4,728,240 | 30,400,382 | 43,465 | 2,630,909 | 37,802,996 | 34,237,275 |
| Bonds payable - Net of current portion | 62,317,048 | 34,330,000 | 100,000 | 39,170,000 | 135,917,048 | 108,576,420 |
| Total noncurrent liabilities | 71,088,521 | 65,963,719 | 143,465 | 43,517,689 | 180,713,394 | 148,877,907 |
| Total liabilities | 80,827,284 | 73,486,456 | 338,273 | 45,796,832 | 200,448,845 | 160,278,497 |
| Net Assets (Deficit) | | | | | | |
| Invested in capital assets - Net of related debt | 98,704,828 | 90,734 | 10,765 | 24,055,359 | 122,861,686 | 116,081,244 |
| Restricted for capital outlay | 7,060,278 | - | - | 5,526,044 | 12,586,322 | 1,304,255 |
| Restricted for debt service | 626,022 | 32,639 | 1,279 | 3,725 | 663,665 | 620,895 |
| Unrestricted | (5,582,354) | (4,640,657) | 103,067 | 729,399 | (9,390,545) | 9,422,498 |
| Total net assets (deficit) | <u>\$ 100,808,774</u> | <u>\$ (4,517,284)</u> | <u>\$ 115,111</u> | <u>\$ 30,314,527</u> | <u>\$ 126,721,128</u> | <u>\$ 127,428,892</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) (Divisional Detail) - Enterprise Fund

| | Year Ended December 31 | | | | | |
|---|---|-------------------------|-------------------|----------------------------|-----------------------|-----------------------|
| | 2006 | | | | 2005 | |
| | Interceptor and Treatment Facilities | Sewage Disposal Systems | | Water Supply Systems | Total | Total |
| | | District No. 3 | District No. 7 | | | |
| Operating Revenue | | | | | | |
| Sewage disposal service | \$ 13,389,967 | \$ 2,692,432 | \$ 676,177 | \$ - | \$ 16,758,576 | \$ 16,420,098 |
| Billing services | 68,575 | 1,356 | 1,917 | 25,279 | 97,127 | 79,592 |
| Sewer and pumping station - Operation and maintenance | 630,323 | - | - | - | 630,323 | 522,110 |
| Inspection fees | 6,550 | - | - | - | 6,550 | 17,808 |
| Water sales | 461,021 | - | - | 13,914,280 | 14,375,301 | 14,923,675 |
| Water meter sales | - | - | - | 115,745 | 115,745 | 153,417 |
| Other operating revenue | 961,385 | 22,180 | 6,095 | 267,049 | 1,256,709 | 973,294 |
| Total operating revenue | 15,517,821 | 2,715,968 | 684,189 | 14,322,353 | 33,240,331 | 33,089,994 |
| Operating Expenses | | | | | | |
| Personnel services | 8,639,489 | 1,221,367 | 293,877 | 1,863,129 | 12,017,862 | 11,768,203 |
| Contractual services | 921,706 | 307,279 | 13,036 | 439,601 | 1,681,622 | 1,250,314 |
| Sludge disposal service | 935,344 | 368,342 | 15,403 | - | 1,319,089 | 1,093,821 |
| Cost of water | - | - | - | 7,875,096 | 7,875,096 | 9,159,871 |
| Repairs and maintenance | 2,464,600 | 187,709 | 137,987 | 645,637 | 3,435,933 | 2,654,518 |
| Utilities | 2,242,377 | 299,481 | 93,094 | 329,826 | 2,964,778 | 2,885,422 |
| Other supplies and expenses | 1,017,162 | 128,181 | 37,841 | 321,366 | 1,504,550 | 2,122,091 |
| Insurance claims and expenses | 303,928 | 46,766 | 5,797 | 46,287 | 402,778 | 480,410 |
| Depreciation | 2,733,867 | 25,582 | 1,766 | 186,319 | 2,947,534 | 2,075,382 |
| Total operating expenses | 19,258,473 | 2,584,707 | 598,801 | 11,707,261 | 34,149,242 | 33,490,032 |
| Operating Income (Loss) | (3,740,652) | 131,261 | 85,388 | 2,615,092 | (908,911) | (400,038) |
| Nonoperating Revenue (Expense) | | | | | | |
| Interest and investment revenue | 611,172 | 1,656,373 | 11,830 | 329,556 | 2,608,931 | 877,949 |
| Miscellaneous revenue | 1,393,025 | - | - | 1,265,075 | 2,658,100 | 5,055,885 |
| Interest expense | (1,411,040) | (1,630,716) | (11,550) | (1,838,345) | (4,891,651) | (2,807,236) |
| Total nonoperating revenue (expense) | 593,157 | 25,657 | 280 | (243,714) | 375,380 | 3,126,598 |
| Income (Loss) - Before capital contributions and operating transfers | (3,147,495) | 156,918 | 85,668 | 2,371,378 | (533,531) | 2,726,560 |
| Capital Contributions | - | - | - | - | - | 575,416 |
| Operating Transfer | 3,589,988 | (3,662,987) | (788) | (100,446) | (174,233) | (215,504) |
| Change in Net Assets | 442,493 | (3,506,069) | 84,880 | 2,270,932 | (707,764) | 3,086,472 |
| Net Assets (Deficit) - Beginning of year | 100,366,281 | (1,011,215) | 30,231 | 28,043,595 | 127,428,892 | 124,342,420 |
| Net Assets (Deficit) - End of year | \$ 100,808,774 | \$ (4,517,284) | \$ 115,111 | \$ 30,314,527 | \$ 126,721,128 | \$ 127,428,892 |

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows (Divisional Detail) - Enterprise Fund

| | Year Ended December 31 | | | | | |
|---|---|--|--------------------|----------------------------|---------------------|-----------------------|
| | 2006 | | | | | 2005 |
| | Interceptor and Treatment Facilities | Sewage Disposal Systems District No. 3 | District No. 7 | Water Supply Systems | Total | Total |
| Cash Flows from Operating Activities | | | | | | |
| Cash received from customers | \$ 15,093,973 | \$ 2,645,105 | \$ 536,397 | \$ 13,556,641 | \$ 31,832,116 | \$ 33,475,521 |
| Cash payments to suppliers and others for goods and services | (8,241,614) | (1,314,059) | (302,343) | (1,863,129) | (11,721,145) | (23,105,493) |
| Cash payments to employees | (8,557,498) | (1,231,485) | (293,877) | (9,430,528) | (19,513,388) | (11,768,203) |
| Net cash provided by (used in) operating activities | (1,705,139) | 99,561 | (59,823) | 2,262,984 | 597,583 | (1,398,175) |
| Cash Flows from Capital and Related Financing Activities | | | | | | |
| Purchases of capital assets | (34,665,231) | (10,571,204) | (7,592) | (7,388,425) | (52,632,452) | (42,130,926) |
| Capital contributions from (to) communities | (3,665,000) | - | - | - | (3,665,000) | 18,023,646 |
| County capital improvement fees | 1,133,875 | - | - | 1,265,075 | 2,398,950 | 4,677,005 |
| Collections of leases receivable from municipalities | 2,603,152 | 3,956,916 | 86,452 | 344,882 | 6,991,402 | 4,990,000 |
| Amounts paid on behalf of municipalities | - | - | - | - | - | (5,492,537) |
| Proceeds from issuance of revenue bonds | - | - | - | - | - | 5,471,420 |
| Proceeds from issuance of bonded debt | 36,120,628 | - | - | - | 36,120,628 | 15,840,000 |
| Principal paid on bond maturities | (3,435,000) | (2,315,000) | (75,000) | (1,195,000) | (7,020,000) | (17,435,000) |
| Interest paid on bonds | (1,411,040) | (1,630,716) | (11,550) | (1,838,345) | (4,891,651) | (2,807,236) |
| Premium on bonded debt | - | - | - | - | - | 382,223 |
| Administrative costs associated with bond issues | - | - | - | - | - | (3,343) |
| Proceeds from grants | 259,150 | - | - | - | 259,150 | - |
| Net cash used in capital and related financing activities | (3,059,466) | (10,560,004) | (7,690) | (8,811,813) | (22,438,973) | (18,484,748) |
| Cash Flows from Investing Activities | | | | | | |
| Investment income | 168,020 | 14,457 | 378 | 294,674 | 477,529 | 877,949 |
| Operating transfer | (65,458) | (7,541) | (788) | (100,446) | (174,233) | (215,504) |
| Net cash provided by (used in) investing activities | 102,562 | 6,916 | (410) | 194,228 | 303,296 | 662,445 |
| Net Decrease in Cash and Cash Equivalents | (4,662,043) | (10,453,527) | (67,923) | (6,354,601) | (21,538,094) | (19,220,478) |
| Cash and Cash Equivalents - Beginning of year | 2,450,523 | 11,799,902 | (16,769) | 10,397,135 | 24,630,791 | 43,851,269 |
| Cash and Cash Equivalents - End of year | <u>\$ (2,211,520)</u> | <u>\$ 1,346,375</u> | <u>\$ (84,692)</u> | <u>\$ 4,042,534</u> | <u>\$ 3,092,697</u> | <u>\$ 24,630,791</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | | | | |
| Operating income (loss) | \$ (3,740,652) | \$ 131,261 | \$ 85,388 | \$ 2,615,092 | \$ (908,911) | \$ (400,038) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | | | |
| Depreciation | 2,733,867 | 25,582 | 1,766 | 186,319 | 2,947,534 | 2,075,382 |
| Changes in assets and liabilities: | | | | | | |
| Accounts receivable | (751,494) | (82,116) | (147,212) | (788,239) | (1,769,061) | 41,100 |
| Inventories | - | - | - | (20,521) | (20,521) | (14,917) |
| Prepaid assets | (224,884) | - | - | - | (224,884) | - |
| Accounts payable, accrued expenses, and deferred revenue | (270,372) | 13,581 | 815 | 261,211 | 5,235 | 1,731,998 |
| Internal balances | 55,846 | 11,253 | 297 | 22,527 | 89,923 | 367,768 |
| Due to (from) other governmental units - Net | 492,550 | - | (877) | (13,405) | 478,268 | (5,199,468) |
| Net cash provided by (used in) operating activities | <u>\$ (1,705,139)</u> | <u>\$ 99,561</u> | <u>\$ (59,823)</u> | <u>\$ 2,262,984</u> | <u>\$ 597,583</u> | <u>\$ (1,398,175)</u> |
| Composition of Cash and Cash Equivalents | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 2,476,228 | \$ 2,476,228 | \$ 8,339,647 |
| Restricted cash and cash equivalents | 628,433 | 2,649,056 | 1,479 | 1,566,306 | 4,845,274 | 17,707,682 |
| Drafts payable | (2,839,953) | (1,302,681) | (86,171) | - | (4,228,805) | (1,416,538) |
| Total cash and cash equivalents | <u>\$ (2,211,520)</u> | <u>\$ 1,346,375</u> | <u>\$ (84,692)</u> | <u>\$ 4,042,534</u> | <u>\$ 3,092,697</u> | <u>\$ 24,630,791</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2006 | Issued (Retired) During the Year | Principal Outstanding December 31, 2006 |
|--|--|---|--|
| Total interceptor and treatment facilities (Pages 45-48) | \$ 34,706,420 | \$ 32,685,628 | \$ 67,392,048 |
| Total District No. 3 (Pages 49-50) | 39,050,000 | (2,315,000) | 36,735,000 |
| District No. 7 - 3.700% to 4.500% Sewage Disposal System Facility Bonds dated June 1, 1999 in the amount of \$675,000. Due serially in amounts ranging from \$50,000 to \$100,000 through 2008 | 250,000 | (75,000) | 175,000 |
| Total water supply systems (Pages 51-52) | 41,590,000 | (1,195,000) | 40,395,000 |
| | | | |
| Total | <u>\$ 115,596,420</u> | <u>\$ 29,100,628</u> | <u>\$ 144,697,048</u> |

Summary of Bonds Payable Year Ended December 31, 2006

| | 2007 | 2008 | 2009 | 2010 | 2011 | Later | Total |
|-----------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Principal | \$ 5,075,000 | \$ 4,855,000 | \$ 3,770,000 | \$ 3,950,000 | \$ 4,010,000 | \$ 45,732,048 | \$ 67,392,048 |
| Interest | 1,799,208 | 1,644,545 | 1,503,665 | 1,385,922 | 1,261,943 | 6,848,766 | 14,444,049 |
| Principal | 2,405,000 | 2,435,000 | 2,100,000 | 2,180,000 | 2,285,000 | 25,330,000 | 36,735,000 |
| Interest | 1,542,377 | 1,453,151 | 1,362,939 | 1,283,620 | 1,195,170 | 6,244,400 | 13,081,657 |
| Principal | 75,000 | 100,000 | - | - | - | - | 175,000 |
| Interest | 7,800 | 4,500 | - | - | - | - | 12,300 |
| Principal | 1,225,000 | 1,255,000 | 985,000 | 1,025,000 | 1,060,000 | 34,845,000 | 40,395,000 |
| Interest | 1,797,564 | 1,754,304 | 1,715,886 | 1,683,025 | 1,645,861 | 20,258,458 | 28,855,098 |
| Principal | 8,780,000 | 8,645,000 | 6,855,000 | 7,155,000 | 7,355,000 | 105,907,048 | 144,697,048 |
| Interest | 5,146,949 | 4,856,500 | 4,582,490 | 4,352,567 | 4,102,974 | 33,351,624 | 56,393,104 |
| | \$ 13,926,949 | \$ 13,501,500 | \$ 11,437,490 | \$ 11,507,567 | \$ 11,457,974 | \$ 139,258,672 | \$ 201,090,152 |

Genesee County Drain Commissioner Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2006 | Issued (Retired) During the Year | Principal Outstanding December 31, 2006 |
|--|--|---|--|
| Total Genesee County Drain Commissioner bonds payable: | | | |
| Included in interceptor and treatment facilities | \$ 19,955,000 | \$ (1,275,000) | \$ 18,680,000 |
| Included in water supply system | <u>25,715,000</u> | <u>(685,000)</u> | <u>25,030,000</u> |
| Subtotal | 45,670,000 | (1,960,000) | 43,710,000 |
| Total community-related bonds payable | 69,926,420 | 31,060,628 | 100,987,048 |
| | <hr/> | <hr/> | <hr/> |
| Total | <u>\$ 115,596,420</u> | <u>\$ 29,100,628</u> | <u>\$ 144,697,048</u> |

Summary of Bonds Payable (Continued)

Year Ended December 31, 2006

| | 2007 | 2008 | 2009 | 2010 | 2011 | Later | Total |
|-----------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Principal | \$ 1,320,000 | \$ 1,415,000 | \$ 1,465,000 | \$ 1,575,000 | \$ 1,680,000 | \$ 11,225,000 | \$ 18,680,000 |
| Interest | 782,877 | 727,322 | 666,710 | 601,320 | 529,573 | 1,605,483 | 4,913,285 |
| Principal | 715,000 | 750,000 | 780,000 | 815,000 | 845,000 | 21,125,000 | 25,030,000 |
| Interest | <u>1,122,323</u> | <u>1,099,798</u> | <u>1,074,798</u> | <u>1,048,087</u> | <u>1,017,224</u> | <u>12,301,770</u> | <u>17,664,000</u> |
| Principal | 2,035,000 | 2,165,000 | 2,245,000 | 2,390,000 | 2,525,000 | 32,350,000 | 43,710,000 |
| Interest | 1,905,200 | 1,827,120 | 1,741,508 | 1,649,407 | 1,546,797 | 13,907,253 | 22,577,285 |
| Principal | 6,745,000 | 6,480,000 | 4,610,000 | 4,765,000 | 4,830,000 | 73,557,048 | 100,987,048 |
| Interest | <u>3,241,749</u> | <u>3,029,380</u> | <u>2,840,982</u> | <u>2,703,160</u> | <u>2,556,177</u> | <u>19,444,371</u> | <u>33,815,819</u> |
| Principal | 8,780,000 | 8,645,000 | 6,855,000 | 7,155,000 | 7,355,000 | 105,907,048 | 144,697,048 |
| Interest | <u>5,146,949</u> | <u>4,856,500</u> | <u>4,582,490</u> | <u>4,352,567</u> | <u>4,102,974</u> | <u>33,351,624</u> | <u>56,393,104</u> |
| | <u>\$ 13,926,949</u> | <u>\$ 13,501,500</u> | <u>\$ 11,437,490</u> | <u>\$ 11,507,567</u> | <u>\$ 11,457,974</u> | <u>\$ 139,258,672</u> | <u>\$ 201,090,152</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2006 | Issued (Retired) During the Year | Principal Outstanding December 31, 2006 |
|---|--|---|--|
| 3.50% to 4.70% County of Genesee Sanitary Sewage Disposal System (Interceptor and Treatment Facilities) Revenue Bonds, Series 2002A dated 5-1-02 in the original amount of \$11,000,000. Due serially in various amounts ranging from \$485,000 to \$1,020,000 through 2017 | \$ 9,455,000 | \$ (575,000) | \$ 8,880,000 |
| 2.00% to 4.50% County of Genesee Sanitary Sewage Disposal System (Western Trunk Relief Sewer) Revenue Bonds, Series 2003 dated 8-1-03 in the original amount of \$9,000,000. Due serially in various amounts ranging from \$350,000 to \$2,350,000 through 2018 | 5,800,000 | (350,000) | 5,450,000 |
| 4.00% to 4.25% Mt. Morris Township - Refunding Series 2005 dated 12/22/05 in the original amount of \$2,900,000. Due serially in amounts ranging from \$15,000 to \$315,000 through 2019 | 2,900,000 | (15,000) | 2,885,000 |
| 1.625% Full Faith and Credit Revenue Bonds, Series 2005A dated 6/23/05 State Revolving Fund Program in the original amount of \$22,180,000. Due when fully received in amounts ranging from \$950,000 to \$1,285,000 beginning 10/07 through 2026 | 4,167,463 | 17,885,173 | 22,052,636 |
| 1.625% Full Faith and Credit Revenue Bonds, Series 2005B dated 9/22/05 State Revolving Fund Program in the original amount of \$15,505,000. Due when fully received in amounts ranging from \$660,000 to \$900,000 beginning 4/07 through 2026 | 1,303,957 | 13,927,988 | 15,231,945 |
| 4% to 4.35% Genesee County Sanitary Sewage Disposal System No. 1 Western Trunk Extension Sewer Phase II Series 2006 dated 09-01-06 in the amount of \$3,665,000. Due serially in amounts ranging from \$110,000 to \$285,000 through 2026. | - | 3,665,000 | 3,665,000 |
| 1.625% County of Genesee Sanitary Sewage Disposal System Revenue Bonds, Northeast Extension Sewer Project, Series 2006A dated September 21, 2006. State Revolving Fund Program in the original amount of \$2,815,000. Due in amounts ranging from \$120,000 to \$165,000 once first draw is made through 2027. Interest accrues from the date principal is disbursed until paid | - | 642,467 | 642,467 |
| 3.90% to 4.45% Sewage Disposal System No. 5, Village of Goodrich Refunding Bonds, dated 6/1/98 in the original amount of \$1,155,000. Due serially in amounts ranging from \$140,000 to \$155,000 through 2006 | 150,000 | (150,000) | - |
| 5.00% to 7.00% Mt. Morris Township Local Sewer System dated 10/1/68 in the original amount of \$6,400,000. Due serially in various amounts through 2007 | 550,000 | (275,000) | 275,000 |
| 3.90% to 4.55% Sewage Disposal Refunding Bonds (Genesee Township) dated 7/1/98 in the original amount of \$3,175,000. Due serially in various amounts through 2008 | 900,000 | (305,000) | 595,000 |
| 4.00% to 5.50% Davison Township Sub-Trunk System dated 6/1/68 in the original amount of \$2,300,000. Due serially in amounts ranging from \$75,000 to \$100,000 through 2008 | 300,000 | (100,000) | 200,000 |
| 5.00% Davison Township Lateral System dated 6/1/68 in the original amount of \$970,000. Due serially in amounts ranging from \$35,000 to \$40,000 through 2008 | 120,000 | (40,000) | 80,000 |
| 4.00% to 6.00% City of Burton Arm (Burton Township Arm) dated 1/1/68 and 4/1/69 in the original amounts of \$7,100,000 and \$3,400,000, respectively. Due serially in various amounts ranging from \$215,000 to \$515,000 through 2008 | 420,000 | (140,000) | 280,000 |

**Schedule of Bonds Payable
Interceptor and Treatment Facilities
Year Ended December 31, 2006**

| | 2007 | 2008 | 2009 | 2010 | 2011 | Later | Total |
|-----------|------------|------------|------------|------------|------------|--------------|--------------|
| Principal | \$ 605,000 | \$ 640,000 | \$ 675,000 | \$ 715,000 | \$ 755,000 | \$ 5,490,000 | \$ 8,880,000 |
| Interest | 368,755 | 344,460 | 318,160 | 290,360 | 260,553 | 786,888 | 2,369,176 |
| Principal | 365,000 | 375,000 | 390,000 | 410,000 | 425,000 | 3,485,000 | 5,450,000 |
| Interest | 209,622 | 200,862 | 190,550 | 178,460 | 164,520 | 635,595 | 1,579,609 |
| Principal | 25,000 | 25,000 | 210,000 | 220,000 | 230,000 | 2,175,000 | 2,885,000 |
| Interest | 118,220 | 117,220 | 112,520 | 103,920 | 94,805 | 382,145 | 928,830 |
| Principal | 950,000 | 965,000 | 980,000 | 995,000 | 1,010,000 | 17,152,636 | 22,052,636 |
| Interest | 356,671 | 342,918 | 327,237 | 311,312 | 295,143 | 2,299,124 | 3,932,405 |
| Principal | 660,000 | 670,000 | 685,000 | 695,000 | 705,000 | 11,816,945 | 15,231,945 |
| Interest | 218,317 | 231,350 | 220,341 | 209,128 | 197,753 | 1,468,036 | 2,544,925 |
| Principal | 110,000 | 115,000 | 120,000 | 125,000 | 135,000 | 3,060,000 | 3,665,000 |
| Interest | 148,835 | 144,335 | 139,635 | 134,735 | 129,535 | 1,087,385 | 1,784,460 |
| Principal | - | 120,000 | 120,000 | 125,000 | 125,000 | 152,467 | 642,467 |
| Interest | 8,091 | 10,440 | 8,490 | 6,540 | 4,509 | 2,843 | 40,913 |
| Principal | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - |
| Principal | 275,000 | - | - | - | - | - | 275,000 |
| Interest | 8,113 | - | - | - | - | - | 8,113 |
| Principal | 300,000 | 295,000 | - | - | - | - | 595,000 |
| Interest | 20,097 | 6,711 | - | - | - | - | 26,808 |
| Principal | 100,000 | 100,000 | - | - | - | - | 200,000 |
| Interest | 6,000 | 2,000 | - | - | - | - | 8,000 |
| Principal | 40,000 | 40,000 | - | - | - | - | 80,000 |
| Interest | 3,000 | 1,000 | - | - | - | - | 4,000 |
| Principal | 140,000 | 140,000 | - | - | - | - | 280,000 |
| Interest | 11,550 | 3,850 | - | - | - | - | 15,400 |

Genesee County Drain Commissioner

Division of Water and Waste Services

| Description of Issue | Outstanding January 1, 2006 | (Retired) During the Year | Outstanding December 31, 2006 |
|--|-----------------------------------|---------------------------------|-------------------------------------|
| 4.00% to 6.00% City of Burton Lateral System (Burton Township Lateral System) dated 1/1/68 and 4/1/69 in the original amounts of \$3,660,000 and \$2,340,000, respectively. Due serially in various amounts ranging from \$230,000 to \$280,000 through 2008 | \$ 660,000 | \$ (280,000) | \$ 380,000 |
| 4.00% to 5.50% Southeast Extension to System No. 2 dated 10/1/68 in the original amount of \$2,500,000. Due serially in amounts of \$100,000 through 2008 | 300,000 | (100,000) | 200,000 |
| 5.70% to 6.00% Vienna Township Arm dated 2/1/69 in the original amount of \$4,350,000. Due serially in amounts ranging from \$175,000 to \$200,000 through 2008 | 600,000 | (200,000) | 400,000 |
| 3.75% to 4.75% Sewage Disposal System Refunding Bonds dated 7/1/98 in the original amount of \$3,335,000. Due serially in amounts ranging from \$315,000 to \$330,000 through 2010 | 1,080,000 | (305,000) | 775,000 |
| 5.00% to 7.00% Mt. Morris Township - Frances/Webster Road Section dated 10/1/96 in the original amount of \$1,475,000. Due serially in amounts ranging from \$75,000 to \$150,000 through 2012 | 800,000 | (100,000) | 700,000 |
| 4.00% to 5.00% Full Faith and Credit Revenue Bonds, Series 2000, dated 8/31/00 in the amount of \$6,000,000. Due serially in amounts ranging from \$200,000 to \$600,000 through 2014 | 4,700,000 | (350,000) | 4,350,000 |
| 4.95% to 5.70% Mt. Morris Township Sewer Program Series 1999, dated 12/1/99 in the amount of \$3,800,000. Due serially in amounts ranging from \$100,000 to \$300,000 through 2019 | 500,000 | (150,000) | 350,000 |
| Total | <u>\$ 34,706,420</u> | <u>\$ 32,685,628</u> | <u>\$ 67,392,048</u> |

**Schedule of Bonds Payable
Interceptor and Treatment Facilities (Continued)
Year Ended December 31, 2006**

| | 2007 | 2008 | 2009 | 2010 | 2011 | Later | Total |
|-----------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| Principal | \$ 280,000 | \$ 100,000 | \$ - | \$ - | \$ - | \$ - | 380,000 |
| Interest | 19,860 | 2,750 | - | - | - | - | 22,610 |
| Principal | 100,000 | 100,000 | - | - | - | - | 200,000 |
| Interest | 6,000 | 2,000 | - | - | - | - | 8,000 |
| Principal | 200,000 | 200,000 | - | - | - | - | 400,000 |
| Interest | 17,700 | 5,900 | - | - | - | - | 23,600 |
| Principal | 300,000 | 295,000 | 90,000 | 90,000 | - | - | 775,000 |
| Interest | 28,230 | 14,918 | 6,232 | 2,092 | - | - | 51,472 |
| Principal | 100,000 | 100,000 | 100,000 | 125,000 | 125,000 | 150,000 | 700,000 |
| Interest | 32,500 | 27,500 | 22,500 | 16,875 | 10,625 | 3,750 | 113,750 |
| Principal | 350,000 | 400,000 | 400,000 | 450,000 | 500,000 | 2,250,000 | 4,350,000 |
| Interest | 204,500 | 182,000 | 158,000 | 132,500 | 104,500 | 183,000 | 964,500 |
| Principal | 175,000 | 175,000 | - | - | - | - | 350,000 |
| Interest | 13,147 | 4,331 | - | - | - | - | 17,478 |
| Principal | 5,075,000 | 4,855,000 | 3,770,000 | 3,950,000 | 4,010,000 | 45,732,048 | 67,392,048 |
| Interest | 1,799,208 | 1,644,545 | 1,503,665 | 1,385,922 | 1,261,943 | 6,848,766 | 14,444,049 |
| | <u>\$ 6,874,208</u> | <u>\$ 6,499,545</u> | <u>\$ 5,273,665</u> | <u>\$ 5,335,922</u> | <u>\$ 5,271,943</u> | <u>\$ 52,580,814</u> | <u>\$ 81,836,097</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2006 | Issued (Retired) During the Year | Principal Outstanding December 31, 2006 |
|--|--|---|--|
| 2.50% to 5.00% Sewage Disposal System Bonds, Series 1996A - Refinancing - in the amount of \$12,940,000. Due serially in amounts ranging from \$75,000 to \$1,355,000 through 2016 | \$ 12,940,000 | \$ (75,000) | \$ 12,865,000 |
| 5.70% to 6.00% Torrey and Ponemah Road Arms dated 6/1/68 in the original amount of \$1,925,000. Due serially in various amounts ranging from \$70,000 to \$80,000 through 2008 | 240,000 | (80,000) | 160,000 |
| 5.20% to 7.00% Sewage Disposal System Bonds, Series 1996A in the original amount of \$17,445,000. Due serially in amounts ranging from \$280,000 to \$1,400,000 through 2016 | 950,000 | (950,000) | - |
| 3.70% to 4.55% Sewage Disposal System Refunding Bonds dated 5/1/98 in the original amount of \$3,370,000. Due serially in amounts ranging from \$280,000 to \$395,000 through 2008 | 1,115,000 | (395,000) | 720,000 |
| 5.00% to 7.375% Rolston and Ripley Road Arms dated 11/1/96 in the original amount of \$1,240,000. Due serially in various amounts ranging from \$25,000 to \$100,000 through 2017 | 1,025,000 | (75,000) | 950,000 |
| 4.50% to 5.00% Sewage Disposal System Bonds dated 7/1/98 in the original amount of \$7,140,000. Due serially in amounts ranging from \$80,000 to \$915,000 through 2019 | 6,305,000 | (265,000) | 6,040,000 |
| 4.00% to 5.00% Sewage Disposal System Bonds dated 12/1/04 in the original amount of \$8,000,000. Due serially in amounts ranging from \$250,000 to \$700,000 through 2024 | 8,000,000 | (250,000) | 7,750,000 |
| 4.00% to 5.00% Sewage Disposal System Bonds dated 12/1/04 in the original amount of \$4,600,000. Due serially in amounts ranging from \$100,000 to \$400,000 through 2024 | 4,600,000 | (100,000) | 4,500,000 |
| 2.50% to 4.50% Sewage Disposal System Bonds dated 12/1/03 in the original amount of \$4,000,000. Due serially in amounts ranging from \$125,000 to \$250,000 through 2024 | 3,875,000 | (125,000) | 3,750,000 |
| Total | <u>\$ 39,050,000</u> | <u>\$ (2,315,000)</u> | <u>\$ 36,735,000</u> |

Schedule of Bonds Payable - Sewage Disposal Systems
District No. 3
Year Ended December 31, 2006

| | 2007 | 2008 | 2009 | 2010 | 2011 | Later | Total |
|-----------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| Principal | \$ 1,035,000 | \$ 1,210,000 | \$ 1,260,000 | \$ 1,315,000 | \$ 1,340,000 | \$ 6,705,000 | \$ 12,865,000 |
| Interest | 515,981 | 483,600 | 443,400 | 398,338 | 346,850 | 815,825 | 3,003,994 |
| Principal | 80,000 | 80,000 | - | - | - | - | 160,000 |
| Interest | 7,080 | 2,360 | - | - | - | - | 9,440 |
| Principal | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - |
| Principal | 390,000 | 330,000 | - | - | - | - | 720,000 |
| Interest | 32,370 | 15,015 | - | - | - | - | 47,385 |
| Principal | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 575,000 | 950,000 |
| Interest | 49,138 | 45,350 | 41,488 | 37,569 | 33,594 | 98,294 | 305,433 |
| Principal | 325,000 | 190,000 | 190,000 | 190,000 | 220,000 | 4,925,000 | 6,040,000 |
| Interest | 288,783 | 276,551 | 267,526 | 258,501 | 248,764 | 1,198,518 | 2,538,643 |
| Principal | 250,000 | 300,000 | 300,000 | 325,000 | 325,000 | 6,250,000 | 7,750,000 |
| Interest | 322,250 | 311,250 | 299,250 | 286,750 | 273,750 | 1,954,875 | 3,448,125 |
| Principal | 100,000 | 100,000 | 100,000 | 100,000 | 150,000 | 3,950,000 | 4,500,000 |
| Interest | 187,000 | 183,000 | 179,000 | 175,000 | 170,000 | 1,286,000 | 2,180,000 |
| Principal | 150,000 | 150,000 | 175,000 | 175,000 | 175,000 | 2,925,000 | 3,750,000 |
| Interest | 139,775 | 136,025 | 132,275 | 127,462 | 122,212 | 890,888 | 1,548,637 |
| Principal | 2,405,000 | 2,435,000 | 2,100,000 | 2,180,000 | 2,285,000 | 25,330,000 | 36,735,000 |
| Interest | 1,542,377 | 1,453,151 | 1,362,939 | 1,283,620 | 1,195,170 | 6,244,400 | 13,081,657 |
| | <u>\$ 3,947,377</u> | <u>\$ 3,888,151</u> | <u>\$ 3,462,939</u> | <u>\$ 3,463,620</u> | <u>\$ 3,480,170</u> | <u>\$ 31,574,400</u> | <u>\$ 49,816,657</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2006 | Issued (Retired) During the Year | Principal Outstanding December 31, 2006 |
|--|--|---|--|
| 2.50% to 4.375% Water Supply System Revenue Bonds dated 8/3/03 in the original amount of \$9,000,000. Due serially in amounts ranging from \$455,000 to \$775,000 through 2018 | \$ 8,075,000 | \$ (490,000) | \$ 7,585,000 |
| 4.00% to 4.625% Water Supply System Revenue Bonds dated 10/1/03 in the original amount of \$18,000,000. Due serially and term in amounts ranging from \$175,000 to \$10,495,000 through 2033 | 17,640,000 | (195,000) | 17,445,000 |
| 3.00% to 5.00% Water Supply System Revenue Bonds dated 9/1/04 in the original amount of \$14,960,000. Due serially in amounts ranging from \$200,000 to \$1,000,000 through 2030 | 14,960,000 | (200,000) | 14,760,000 |
| 5.00% to 5.85% Water Supply System No. 2 dated 6/1/68 in the amount of \$420,000. Due serially in amounts of \$15,000 through 2008 | 45,000 | (15,000) | 30,000 |
| 6.00% to 8.00% Water Supply System No. 4 - Vienna Township 11/21/78 in the original amount of \$790,000. Due serially in amounts of \$40,000 through 2008 | 120,000 | (40,000) | 80,000 |
| 3.75% to 4.50% Water Supply System Refunding Bonds dated 6/1/98 in the original amount of \$2,545,000. Due serially in amounts ranging from \$245,000 to \$270,000 through 2008 | 750,000 | (255,000) | 495,000 |
| Total | <u>\$ 41,590,000</u> | <u>\$ (1,195,000)</u> | <u>\$ 40,395,000</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

Schedule of Bonds Payable Water Supply Systems Year Ended December 31, 2006

| | 2007 | 2008 | 2009 | 2010 | 2011 | Later | Total |
|-----------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| Principal | \$ 510,000 | \$ 530,000 | \$ 550,000 | \$ 570,000 | \$ 590,000 | \$ 4,835,000 | \$ 7,585,000 |
| Interest | 281,561 | 267,236 | 251,036 | 233,524 | 212,461 | 747,133 | 1,992,951 |
| Principal | 205,000 | 220,000 | 230,000 | 245,000 | 255,000 | 16,290,000 | 17,445,000 |
| Interest | 840,762 | 832,562 | 823,762 | 814,563 | 804,763 | 11,554,637 | 15,671,049 |
| Principal | 205,000 | 205,000 | 205,000 | 210,000 | 215,000 | 13,720,000 | 14,760,000 |
| Interest | 653,388 | 647,238 | 641,088 | 634,938 | 628,637 | 7,956,688 | 11,161,977 |
| Principal | 15,000 | 15,000 | - | - | - | - | 30,000 |
| Interest | 1,125 | 375 | - | - | - | - | 1,500 |
| Principal | 40,000 | 40,000 | - | - | - | - | 80,000 |
| Interest | 4,140 | 1,380 | - | - | - | - | 5,520 |
| Principal | 250,000 | 245,000 | - | - | - | - | 495,000 |
| Interest | 16,588 | 5,513 | - | - | - | - | 22,101 |
| Principal | 1,225,000 | 1,255,000 | 985,000 | 1,025,000 | 1,060,000 | 34,845,000 | 40,395,000 |
| Interest | 1,797,564 | 1,754,304 | 1,715,886 | 1,683,025 | 1,645,861 | 20,258,458 | 28,855,098 |
| | \$ 3,022,564 | \$ 3,009,304 | \$ 2,700,886 | \$ 2,708,025 | \$ 2,705,861 | \$ 55,103,458 | \$ 69,250,098 |